

CHARITON MUNICIPAL WATERWORKS
INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENT
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

Year Ended June 30, 2020

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CHARITON MUNICIPAL WATERWORKS

OFFICIALS

(Before January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Evelyn Hull	Chair	December 31, 2022
Jim Burbridge	Vice-Chair	December 31, 2021
Jamie Aulwes	Secretary	December 31, 2023
Mo White	Trustee	December 31, 2019
Vern Vogel	Trustee	December 31, 2020
Brad Robbins	Superintendent	Indefinite
Christy Metzger	Treasurer	Indefinite

(After January 2020)

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Evelyn Hull	Chair	December 31, 2022
Jim Burbridge	Vice-Chair	December 31, 2021
Jamie Aulwes	Secretary	December 31, 2023
Thelma Saxton	Trustee	December 31, 2025
Vern Vogel	Trustee	December 31, 2020
Brad Robbins	Superintendent	Indefinite
Christy Metzger	Treasurer	Indefinite

Chariton Municipal Waterworks



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of the
Chariton Municipal Waterworks:

Report on the Financial Statement

We have audited the accompanying financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement listed in the table of contents.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Waterworks' preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Waterworks' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statement referred to above presents fairly, in all material respects, the respective cash basis financial position of the Waterworks as of June 30, 2020, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, this financial statement was prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the Waterworks' financial statement. The supplementary information included in Schedules 1 through 2 is presented for purposes of additional analysis and is not a required part of the basic financial statement.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statement taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the Waterwork's Proportionate Share of the Net Pension Liability and the Schedule of Waterworks Contributions on pages 18 through 22 has not been subjected to the auditing procedures applied in the audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 20, 2021 on our consideration of the Waterworks' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the Waterwork's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control over financial reporting and compliance.



Faller, Kincheloe & Co., PLC

January 20, 2021

Financial Statement

CHARITON MUNICIPAL WATERWORKS

Exhibit A

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES
IN CASH BALANCE

As of and for the year ended June 30, 2020

	Enterprise Fund Water
Operating receipts:	
Charges for service	\$ 1,495,316
Miscellaneous	99,978
Total operating receipts	<u>1,595,294</u>
Operating disbursements:	
Business type activities	<u>1,262,739</u>
Total operating disbursements	<u>1,262,739</u>
Excess of operating receipts over operating disbursements	<u>332,555</u>
Non-operating receipts (disbursements):	
Interest on investments	4,787
Rental income	16,318
Sewer rental and storm sewer fees collected for City	981,215
Sewer rental and storm sewer fees remitted to City	(996,413)
Debt service	(142,847)
Capital projects	(147,476)
Net non-operating receipts (disbursements)	<u>(284,416)</u>
Change in cash balance	48,139
Cash balance beginning of year	<u>773,409</u>
Cash balance end of year	<u>\$ 821,548</u>
Cash Basis Fund Balance	
Restricted for:	
Customer water deposits	\$ 121,404
Short-lived asset	8,333
Reserve	22,360
Total restricted cash basis fund balance	<u>152,097</u>
Unrestricted	<u>669,451</u>
Total cash basis fund balance	<u>\$ 821,548</u>

See notes to financial statement.

CHARITON MUNICIPAL WATERWORKS

NOTES TO FINANCIAL STATEMENT

June 30, 2020

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Chariton Municipal Waterworks (Waterworks) is a component unit of the City of Chariton, Iowa, as determined by criteria specified by the Governmental Accounting Standards Board. The Waterworks is governed by a five-member board of trustees appointed by the Mayor, subject to the approval of the City Council, which exercises oversight responsibility under this criteria.

B. Basis of Presentation

The accounts of the Waterworks are organized as an Enterprise Fund. Enterprise funds are utilized to finance and account for the acquisition, operation and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

C. Basis of Accounting

The Waterworks maintains its financial records on the basis of cash receipts and disbursements and the financial statement of the Waterworks is prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statement does not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

D. Fund Balance

Funds set aside for customer water deposits, short-lived asset, and reserve account funds are classified as restricted.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

Note 2. Cash and Pooled Investments

The Waterworks' deposits at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Waterworks is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Water Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Waterworks had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Note 3. Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2020 are as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Due Within One Year
Business type activities:					
Direct Borrowings:					
Water Revenue Notes	\$ 3,561,398	-	59,005	3,502,393	60,271
Capital Lease	49,638	-	6,717	42,921	7,014
Business-type activities total	\$ 3,611,036	-	65,722	3,545,314	67,285

Direct Borrowings – Water Revenue Notes Payable:

A summary of the Waterworks June 30, 2020 direct borrowings water revenue notes payable is as follows:

Year Ending June 30,	\$3,605,000 Issue Water Revenue Notes		Total	
	Principal	Interest	Principal	Interest
2021	\$ 60,271	73,841	60,271	73,841
2022	61,564	72,548	61,564	72,548
2023	62,885	71,227	62,885	71,227
2024	64,235	69,877	64,235	69,877
2025	65,613	68,499	65,613	68,499
2026-2030	349,798	320,762	349,798	320,762
2031-2035	388,974	281,586	388,974	281,586
2036-2040	432,537	238,023	432,537	238,023
2041-2045	480,979	189,581	480,979	189,581
2046-2050	534,847	135,713	534,847	135,713
2051-2055	594,747	75,813	594,747	75,813
2056-2059	405,943	14,016	405,943	14,016
	<u>\$ 3,502,393</u>	<u>1,611,486</u>	<u>3,502,393</u>	<u>1,611,486</u>

On September 26, 2018, the Waterworks entered into an agreement with the U.S. Department of Agriculture – Rural Development for the issuance of \$3,605,000 of water revenue notes with interest at 2.125% per annum. The notes were issued for the purpose of providing funds to pay a hook-up fee to Rathbun Regional Water Association and for the current refunding of two outstanding loans. Principal and interest are payable in equal monthly installments of \$11,176 with the final payment due on September 26, 2058.

The Waterworks has pledged future water customer receipts, net of specified operating disbursements, to repay \$3,605,000 of water revenue notes issued in September 2018. Annual principal and interest payments on the notes are expected to require less than 41% of net receipts. The total principal and interest remaining to be paid on the notes is \$5,113,879. For the current year, principal and interest paid and total customer net receipts were \$134,112 and \$332,555, respectively.

The resolutions providing for the issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

Note 3. Long-Term Liabilities (continued)

- (b) Sufficient monthly transfers shall be made to a water revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (c) A reserve account of \$134,112 shall be established and maintained. Monthly transfers equal to \$1,118 shall be made until the required balance has been accumulated. This account is restricted for paying the principal and interest on the notes if the sinking account is insufficient.
- (d) Monthly transfers of \$334 are required to be made to a short-lived asset account within the Water Fund. The account is restricted for deficiencies in the sinking or reserve accounts or capital improvements, extensions or repairs to the system.
- (e) All users of the system, including the City and Waterworks, shall be charged for service.
- (f) The Utilities shall establish a rate to be charged to customers in order to produce gross revenues at least sufficient to pay expenses of the operation and maintenance of the Utility, and to leave a balance of net revenues equal to at least 100% of the principal and interest of all outstanding bonds and notes due in the fiscal year.

For part of the fiscal year, the Waterworks did not fund the sinking account and the short-lived asset account.

Direct Borrowings - Capital Lease

A summary of the City's June 30, 2020 direct borrowings capital lease payable is as follows:

Year Ended June 30,	Total
2021	\$ 8,735
2022	8,735
2023	29,431
Minimum Lease Payments	46,901
Less Amount Representing Interest	(3,980)
Present Value of Minimum Lease Payments	<u>\$ 42,921</u>

On March 27, 2018, the City entered into a lease-purchase agreement to lease equipment. The lease term is for five years, with interest at 4.33% per annum. The lease is collateralized by the equipment. For the year ended June 30, 2020, principal and interest paid on the capital lease totaled \$8,735. The principal balance at June 30, 2020 was \$42,921.

Note 4. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the Waterworks, except for those covered by another retirement system. Employees of the Waterworks are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the Waterworks contributed 9.44% of covered payroll, for a total rate of 15.73%.

The Waterworks' contributions to IPERS for the year ended June 30, 2020 were \$28,301.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2020, the Waterworks reported a liability of \$275,640 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Waterworks' proportion of the net pension liability was based on the Waterworks' share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the Waterworks' proportion was 0.0047601%, which was a decrease of .000629% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Waterworks' pension expense, deferred outflows of resources and deferred inflows of resources totaled \$50,704, \$43,319 and \$54,003, respectively.

Note 4. Pension Plan (continued)

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of Inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25 to 16.25%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity	22.0 %	5.60 %
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	100.0 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Waterworks will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Note 4. Pension Plan (continued)

Sensitivity of the Waterworks' Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Waterworks' proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Waterworks' proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Waterworks' proportionate share of the net pension liability	\$ 489,447	275,640	9,600

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Note 5. Operating Lease Agreement

The Waterworks entered into a lease on April 2019 to lease copier equipment at \$97 per month. The lease has been classified as an operating lease and, accordingly, all rents are charged to expense as incurred. The lease expires in May 2024.

The following is a schedule of future payments required under the operating lease which has an initial or remaining non-cancelable lease term in excess of one year as of June 30, 2020:

Year Ended June 30,	Amount
2021	\$ 1,170
2022	1,170
2023	1,170
2024	975
	<u>\$ 4,485</u>

During the fiscal year, total disbursements incurred in relation to this lease agreement were \$1,145.

Note 6. Compensated Absences

Waterworks' employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Waterworks until used or paid. The Waterworks' approximate liability for earned vacation and compensatory leave termination payments payable to employees at June 30, 2020 is \$25,491. The liability has been computed based on rates of pay in effect at June 30, 2020.

The Waterworks' policy allows employees who retire at age 55 or older to receive pay for unused sick leave, up to a maximum of 960 hours. The hourly rate of pay used for the payment of unused sick leave would be the hourly pay in effect at the date of retirement. Currently, only one Waterworks employee is age 55 or older. However, all employees are eligible for this benefit if they retire from the Waterworks at age 55 or older, and have unused sick leave hours on the date of retirement. Based on rates of pay in effect at June 30, 2020, the unused sick leave maximum liability to the Waterworks is \$63,511 at June 30, 2020.

Note 7. Lease Agreements

The Waterworks is leasing antenna space on the water towers to communication providers. The length of the lease terms are five years, with options to extend for additional years at the option of the tenants. The lease terms contain provisions of monthly rent amounts and provisions for increases in rents. The Waterworks received \$16,318 from tenants in fiscal year 2020 from these leases.

Note 8. Related Party Transactions

The Waterworks had business transactions between the Waterworks and Waterworks officials totaling \$73,465 during the year ended June 30, 2020.

Note 9. Risk Management

The Waterworks is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Waterworks assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10. Commitments

The Waterworks signed an agreement with Rathbun Regional Water Association (RRWA) to purchase up to 1.2 million of gallons of finished water per day.

The Waterworks participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the Waterworks. The Waterworks' management believes such revisions or disallowances, if any, will not be material to the Waterworks.

The Waterworks can receive an additional \$154,310 from a grant from the United States Department of Agriculture. The Waterworks can receive these additional grant funds if costs are spent on allowable activities. The Waterworks is assessing its options in relation to these unspent grant funds to determine if they have projects which will meet these grant requirements.

The Waterworks entered into an agreement with a vehicle dealership for \$53,384 for the purchase of vehicles. It is anticipated these vehicles will be received in fiscal year 2021. The cost of these vehicles will be paid for from existing funds on hand.

In June 2020, the Waterworks entered into a \$380,000 planning and design loan with the Iowa Finance Authority. No monies have been received from this loan in fiscal year 2020. Monies from this loan will be received from the Iowa Finance Authority as engineering costs are incurred on a water distribution project.

Note 11. COVID-19

In March 2020, the COVID-19 outbreak was declared a global pandemic. The disruption to businesses across a range of industries in the United States continues to evolve. The full impact to local, regional and national economies, including that of the Waterworks, remains uncertain. To date, the outbreak has not created a material disruption to the operations of the Waterworks. However, the extent of the financial impact of COVID-19 will depend on future developments, including the spread of the virus, duration and timing of the economic recovery. Due to these uncertainties, management cannot reasonably estimate the potential impact to the Waterworks operations and finances.

Note 12. Subsequent Events

The Waterworks has evaluated subsequent events through January 20, 2021, which is the date that the financial statement was available to be issued.

In fiscal year 2021, the Waterworks received a \$4,950,000 loan commitment from the United States Department of Agriculture. This loan will be used to fund the costs of water distribution system improvements. As of audit report date, the water distribution system improvement project was in the planning stages.

Note 13. Prospective Accounting Change

Governmental Accounting Standards Board has issued Statement No. 87, Leases. This statement will be implemented for the fiscal year ending June 30, 2021. The revised requirements of this statement require reporting of certain potentially significant lease liabilities that are not currently reported.

Other Information

CHARITON MUNICIPAL WATERWORKS

BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCE -
BUDGET AND ACTUAL

OTHER INFORMATION

Year ended June 30, 2020

	Actual	Budgeted Amounts Final	Final to Actual Variance
Receipts:			
Use of money and property	\$ 21,105	15,700	5,405
Charges for service	2,476,531	2,504,743	(28,212)
Miscellaneous	99,978	80,500	19,478
Total receipts	<u>2,597,614</u>	<u>2,600,943</u>	<u>(3,329)</u>
Disbursements:			
Business type activities	2,549,475	2,623,700	74,225
Total disbursements	<u>2,549,475</u>	<u>2,623,700</u>	<u>74,225</u>
Change in fund balances	48,139	<u>(22,757)</u>	<u>70,896</u>
Balances beginning of year	<u>773,409</u>		
Balances end of year	<u>\$ 821,548</u>		

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – BUDGETARY REPORTING

June 30, 2020

The Chariton Municipal Waterworks (Waterworks) prepares a budget on the cash basis of accounting for all funds and submits it to the City Council. In accordance with the Code of Iowa, the City Council annually adopts a budget, which includes the Water Department, on the cash basis following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon classes of disbursements, known as functions, not by fund. The Waterworks' disbursements are budgeted in the business type activities function. During the year the Waterworks did not amend its budget.

During the year ended June 30, 2020, disbursements did not exceed the amount budgeted.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF THE WATERWORK'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST SIX YEARS*
(IN THOUSANDS)

OTHER INFORMATION

	2020	2019	2018	2017	2016	2015
Waterworks' proportion of the net pension liability	0.004760%	0.005389%	0.005388%	0.004967%	0.004959%	0.006090%
Waterworks' proportionate share of the net pension liability	\$ 276	341	359	313	245	242
Waterworks' covered payroll	\$ 362	405	402	356	340	399
Waterworks' proportionate share of the net pension liability as a percentage of its covered payroll	76.24%	84.20%	89.30%	87.92%	72.06%	60.65%
IPERS' net position as a percentage of the total pension liability	85.45%	83.62%	82.21%	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF WATERWORKS CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TEN YEARS
(IN THOUSANDS)

OTHER INFORMATION

	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
Statutorily required contribution	\$ 28	34	36	36	32	30	36	26	28	22
Contributions in relation to the statutorily required contribution	(28)	(34)	(36)	(36)	(32)	(30)	(36)	(26)	(28)	(22)
Contribution deficiency (excess)	\$ -	-	-	-			-	-	-	-
Waterworks' covered payroll	\$ 300	362	405	402	356	340	399	300	347	317
Contributions as a percentage of covered payroll	9.44%	9.44%	8.93%	8.93%	8.93%	8.93%	8.93%	8.67%	8.07%	6.95%

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

NOTES TO OTHER INFORMATION – PENSION LIABILITY

Year ended June 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

Supplementary Information

CHARITON MUNICIPAL WATERWORKS

Schedule 1

SCHEDULE OF INDEBTEDNESS

Year ended June 30, 2020

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Taxable Water Revenue Notes, Series 2018	09-26-18	2.125%	3,605,000
Lease Purchase	03-27-18	4.333%	57,886

Date of Issue	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
09-26-18	\$ 3,561,398	-	59,005	3,502,393	75,107	-
03-27-18	\$ 49,638	-	6,717	42,921	2,018	-

See accompanying independent auditor's report.

CHARITON MUNICIPAL WATERWORKS

Schedule 2

NOTE MATURITIES

June 30, 2020

Year Ending June 30,	Taxable Water Revenue		
	Notes, Series 2018		
	Issued September 26, 2018		
	Interest		Total
	Rates	Amount	
2021	2.125%	\$ 60,271	60,271
2022	2.125%	61,564	61,564
2023	2.125%	62,885	62,885
2024	2.125%	64,235	64,235
2025	2.125%	65,613	65,613
2026	2.125%	67,021	67,021
2027	2.125%	68,459	68,459
2028	2.125%	69,928	69,928
2029	2.125%	71,429	71,429
2030	2.125%	72,961	72,961
2031	2.125%	74,527	74,527
2032	2.125%	76,126	76,126
2033	2.125%	77,760	77,760
2034	2.125%	79,428	79,428
2035	2.125%	81,132	81,132
2036	2.125%	82,874	82,874
2037	2.125%	84,652	84,652
2038	2.125%	86,469	86,469
2039	2.125%	88,324	88,324
2040	2.125%	90,219	90,219
2041	2.125%	92,155	92,155
2042	2.125%	94,133	94,133
2043	2.125%	96,153	96,153
2044	2.125%	98,216	98,216
2045	2.125%	100,323	100,323
2046	2.125%	102,476	102,476
2047	2.125%	104,675	104,675
2048	2.125%	106,921	106,921
2049	2.125%	109,216	109,216
2050	2.125%	111,559	111,559
2051	2.125%	113,953	113,953
2052	2.125%	116,398	116,398
2053	2.125%	118,896	118,896
2054	2.125%	121,447	121,447
2055	2.125%	124,053	124,053
2056	2.125%	126,715	126,715
2057	2.125%	129,434	129,434
2058	2.125%	132,212	132,212
2059	2.125%	17,581	17,581
		<u>\$ 3,502,393</u>	<u>3,502,393</u>

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF A FINANCIAL STATEMENT PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of the
Chariton Municipal Waterworks:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statement of the Chariton Municipal Waterworks, Chariton, Iowa (Waterworks), as of and for the year ended June 30, 2020, and the related Notes to Financial Statement, which collectively comprise the Waterworks' financial statement, and have issued our report thereon dated January 20, 2021. Our report expressed an unmodified opinion on the financial statement which was prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Waterworks' internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing our opinion on the effectiveness of the Waterworks' internal control. Accordingly, we do not express an opinion on the effectiveness of the Waterworks' internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items I-A-20, I-B-20, I-C-20 and I-D-20 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Waterworks' financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Waterworks' operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statement of the Waterworks. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Waterworks Responses to the Findings

The Waterworks' responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The Waterworks' responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the Waterworks' internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Waterworks' internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Waterworks during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Faller, Kincheloe & Co., PLC

January 20, 2021

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Part I: Findings Related to the Financial Statement:

INTERNAL CONTROL DEFICIENCIES:

I-A-20 Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the Chariton Municipal Waterworks (Waterworks) financial statement.

Condition – Generally, one or two individuals in the Waterworks has control over cash receipts listings, bank deposits and posting cash receipts to the cash receipts journal.

Cause – The Waterworks has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the Waterworks ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The Waterworks should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials, to provide additional control through review of financial transactions, reconciliations and reports.

Response – We will evaluate this and attempt to segregate duties as much as possible.

Conclusion – Response acknowledged.

I-B-20 Preparation of Financial Statement

Criteria - A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statement and accompanying notes to the financial statement by internal personnel of the entity.

Condition - As auditors, we were requested to draft the financial statement and accompanying notes to the financial statement. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statement and accompanying notes to the financial statement is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the Waterworks. The outside party does not have the constant contact with ongoing financial transactions.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Recommendation - We recommend that Waterworks officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statement and accompanying notes to the financial statement internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

I-C-20 Reconciliation of Utility Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling utility billings, collections and delinquent accounts to ensure proper recording of utility receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

Condition – Although the Waterworks utility software generates monthly reports of utility billings, collections and delinquent accounts, the amounts are not reconciled from month to month.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly utility billings, collections and delinquent accounts are reconciled each month to the Waterworks financial and utility billing records.

Effect – Inadequate reconciliations can result in unrecorded or misstated utility receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The Waterworks should ensure all amounts on the reconciliations of utility billings, collections and delinquent accounts are properly supported.

Response – The Waterworks will ensure utility reconciliations are properly supported and reviewed.

Conclusion – Response acknowledged.

I-D-20 Meter Deposits

Criteria - An effective internal control system provides for internal controls related to reconciling the dollar amount of meter deposits on hand with the dollar amount of cash recorded in the meter deposit account.

Condition – The dollar amount of meter deposits on hand, by customer, is not reconciled to the dollar amount of cash recorded in the meter deposit account.

Cause – Policies and procedures have not been implemented to ensure the dollar amount of meter deposits on hand reconcile to the amount of cash recorded in the meter deposit account.

Effect – This condition could result in unrecorded, misstated, improper or unauthorized adjustments to the meter deposit amounts.

Recommendation – The Waterworks should implement procedures to ensure the dollar amount of meter deposits on hand, by customer, reconcile to the dollar amount of cash recorded in the meter deposit account.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-20 Certified Budget - The budget certified by the City of Chariton includes amounts budgeted for the Chariton Municipal Waterworks (Waterworks). Disbursements during the year ended June 30, 2020 did not exceed the amount budgeted.
- II-B-20 Questionable Disbursement – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- II-C-20 Travel Expense - No disbursements of Waterworks money for travel expenses of spouses of Waterworks officials or employees were noted.
- II-D-20 Business Transactions - Business transactions between the Waterworks and Waterworks’ officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mark Savage, Employee Brother Owns ARS Construction	Construction services	<u>\$ 73,465</u>

In accordance with Chapter 362.5(3) of the Code of Iowa, the transactions with the above company may represent a conflict of interest since total transactions were more than \$6,000 during the fiscal year.

Recommendation – The Waterworks should consult legal counsel to determine the disposition of this matter.

Response – We will consult with our Attorney.

Conclusion – Response acknowledged.

- II-E-20 Restricted Donor Activity – No transactions were noted between the Waterworks, Waterworks officials, Waterworks employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.
- II-F-20 Bond Coverage - Surety bond coverage of Waterworks officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-G-20 Board of Trustee Minutes – Transactions were found that we believe should have been approved in the trustee minutes but were not.

Chapter 388.4 of the Code of Iowa states that “Immediately following a regular or special meeting of a utility board, the secretary shall prepare a condensed statement of the proceedings of the board and cause the statement to be published in a newspaper of general circulation in the city. The statement must include a list of all claims allowed, ...”. However, we noted instances in which the proceedings of the board were published six weeks after the board meeting. Given this length of time, it is questionable if the Waterworks is in compliance with Chapter 388.4 of the Code of Iowa.

Recommendation – The Waterworks should comply with Chapter 388.4 of the Code of Iowa.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

Response – We will implement this recommendation.

Conclusion - Response acknowledged.

II-H-20 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-I-20 Revenue Notes – The Waterworks issued a \$1,103,100 revenue bond on March 25, 2015. The revenue bond agreements require that the application of the net sales proceeds for the payment of costs will proceed with due diligence. At June 30, 2010, the Waterworks had unspent bond proceeds of \$79,853 from its \$1,103,100 revenue bond issue. This \$79,853 was subsequently spent in fiscal year 2020. However, it is questionable if the Waterworks has met the intent of the revenue bond requirements.

The Waterworks did not properly fund the water note sinking account and the reserve account as required by the water revenue note resolutions.

Recommendation – The Waterworks should ensure the requirements related to future bond issues are met. In addition, the Waterworks should properly fund the water revenue note sinking account and the reserve account in accordance with the revenue bond requirements.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

II-J-20 Delinquent Accounts – The Waterworks has not turned over delinquent accounts to either the collection agency or to the County Treasurer in several years. At June 30, 2020, delinquent Waterworks customer accounts over 90 days old totaled \$169,878.

Recommendation – The Waterworks should consider turning over delinquent accounts to either the collection agency or to the County Treasurer for collection. In addition, the Waterworks should implement procedures to more aggressively collect delinquent amounts due to the Waterworks.

Response – We will look into this in the future.

Conclusion – Response acknowledged.

II-K-20 Payment to City – Based on the Waterworks accounting records, during the fiscal year, the Waterworks collected \$981,215 in sewer and storm sewer fees and remitted \$996,413 in sewer and storm sewer fees to the City of Chariton. Based on these amounts, it is questionable if the Waterworks is remitting the proper amount of sewer and storm sewer fees to the City of Chariton.

Recommendation – The Waterworks should implement procedures to ensure that the proper amount of monies due to the City of Chariton are properly remitted to the City of Chariton.

Response – The fiscal year 2020 amounts were a correction from a difference in fiscal year 2019. We have now changed our procedures, and in the future this should not be a problem.

Conclusion – Response acknowledged.

CHARITON MUNICIPAL WATERWORKS

SCHEDULE OF FINDINGS

Year ended June 30, 2020

II-L-20 Unclaimed Property – Chapter 556.11 of the Code of Iowa requires all entities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The Waterworks did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation – Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-M-20 Payroll – Wage increases for Waterworks employees were approved based on a percentage increase and the actual approved wages were not documented in the Waterworks minutes.

Recommendation – The Waterworks should ensure approval of actual wages approved should be documented in the Board minutes.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

II-N-20 Sales Tax – We identified two instances in which the Waterworks paid sales taxes to the State of Iowa for purchases of materials. As a government entity, the Waterworks is exempt from paying sales taxes to the State of Iowa for purchases of materials.

Recommendation – The Waterworks should implement procedures to ensure sales taxes are not paid to the State of Iowa for purchases of materials.

Response – We will implement this recommendation, as these sales tax payments were an oversight on our part.

Conclusion – Response acknowledged.